



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 18, 2000

Amendment to H.R. 4205 **Medicare Subvention Project for Military Retirees and Dependents**

As provided by Congressman Taylor on May 17, 2000

SUMMARY

The proposed amendment would make several changes to a demonstration project known as Medicare subvention that is run jointly by the Department of Defense (DoD) and the Health Care Financing Administration (HCFA). CBO estimates that implementing the proposal would cost \$20 million in 2001, \$285 million over 2001-2005, and \$945 million over the 2001-2010 period. Because the amendment would affect direct spending, pay-as-you-go procedures would apply.

Section 725 of H.R. 4205, as approved by the House Committee on Armed Services, contains a three-year extension of the Medicare subvention project. Thus, some of the costs for the proposed amendment would be incurred under the committee-approved version of H.R. 4205. CBO estimates that section 725 of the bill would increase direct spending by \$20 million in 2001 and \$95 million over the 2001-2005 period. The proposed amendment to further extend and modify the demonstration project would have no additional costs for 2001, but would have an incremental cost of \$190 million over the 2001-2005 period, relative to the estimate for section 725 of H.R. 4205 (as approved by the Committee on Armed Services).

The amendment contains private-sector and intergovernmental mandates; however, the costs of those mandates would not exceed the thresholds specified in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated costs for the amendment—relative to current law—are shown in the following table. The costs of the amendment would fall within budget function 570 (Medicare).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
DIRECT SPENDING						
Medicare Spending Under Current Law						
Estimated Budget Authority	195,113	211,518	217,077	234,887	250,997	274,149
Estimated Outlays	195,113	211,518	217,077	234,887	250,997	274,149
Proposed Changes-Medicare Subvention						
Estimated Budget Authority	0	20	35	55	75	100
Estimated Outlays	0	20	35	55	75	100
Medicare Spending Under the Amendment						
Estimated Budget Authority	195,113	211,538	217,112	234,942	251,072	274,249
Estimated Outlays	195,113	211,538	217,112	234,942	251,072	274,249

DoD provides health care to almost 350,000 retirees and survivors who are over age 64 and eligible for Medicare. This health care is provided at military treatment facilities (MTFs) on a space-available basis and includes some services that Medicare does not cover, primarily prescription drugs. Under current law, DoD cannot bill Medicare for the cost of providing health care to those beneficiaries over age 64 except in a demonstration project.

The Congress authorized a demonstration project at up to six sites beginning in January 1998 and ending in December 2000. Under that demonstration, DoD provides care to Medicare-eligible beneficiaries and is reimbursed under certain conditions by HCFA, which administers Medicare. The most important condition is the requirement that DoD maintain a level of effort; any additional care is reimbursable by HCFA up to a cap set in law. This care and reimbursement procedure is known as Medicare subvention. To date, however, HCFA has not reimbursed DoD for any care provided under this program.

The proposed amendment to H.R. 4205 would make the demonstration project permanent and nationwide, eliminate the caps on reimbursement, and allow DoD to be reimbursed on a fee-for-service basis instead of the managed care rate that DoD now receives.

In the current subvention demonstration project, enrolled retirees use substantially more care than civilian retirees enrolled in Medicare managed care plans. Because those enrollees have a high priority for care in MTFs, Medicare-eligible beneficiaries who now receive space-available care at MTFs and choose not to enroll in the subvention program would not be able to use the MTFs as frequently as they otherwise would. Instead, they would obtain more of their care in the private sector, thus raising costs for the Medicare program because Medicare

would be paying for some services that would otherwise be provided at MTFs. CBO estimates that these provisions would cost \$20 million in 2001, \$285 million over the 2001-2005 period, and \$945 million over the 2001-2010 period.

Because H.R. 4205 already contains a three-year extension of the demonstration project, the costs shown above for the amendment includes costs estimated for section 725 of the bill as approved by the Committee on Armed Services. Over the 2001-2005 period, the amendment would add \$190 million to the estimated cost of section 725.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	20	35	55	75	100	115	125	135	140	145
Changes in receipts						Not applicable					

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 725(f) of the amendment to H.R. 4205 would require insurers, under certain circumstances, to issue medigap policies to Medicare enrollees who choose to drop coverage from DoD's Tricare Senior Prime program. The legislation would also prohibit insurers from discriminating in the pricing of such policies based on an individual's health status or use of care, or from using coverage exclusions for preexisting conditions as long as any lapse in coverage was no more than 63 days. These requirements would be private-sector and intergovernmental mandates as defined in UMRA. However, because of the relatively small number of people that could be affected by the provisions, the direct costs of the mandates would not exceed the thresholds as specified in UMRA (\$109 million in 2000 for private-sector mandates and \$55 million in 2000 for intergovernmental mandates, adjusted annually for inflation).

PREVIOUS CBO ESTIMATES

On April 10, 2000, CBO transmitted a cost estimate for H.R. 3655, as introduced on February 15, 2000. H.R. 3655 contains a similar provision regarding the Medicare subvention demonstration program. The estimated costs for Medicare subvention are the same for H.R. 3655 and the proposed amendment to H.R. 4205.

On May 12, 2000, CBO transmitted a cost estimate for H.R. 4205, the National Defense Authorization Act for Fiscal Year 2001, as ordered reported by the House Committee on Armed Services on May 10, 2000. Section 725 of H.R. 4205 would extend the demonstration project for Medicare subvention for three years (through December of 2003). CBO estimated that the three-year extension would cost \$20 million in 2001 and \$95 million over the 2001-2005 period. The proposed amendment would increase those costs by \$190 million over the 2001-2005 period.

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